CREATIVE LEARNING ACADEMY

REPORT ON FINANCIAL STATEMENTS
(with required supplemental information)

YEAR ENDED JUNE 30, 2007

C O N T E N T S

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Creative Learning Academy
Beaverton, Michigan

August 20, 2007

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Creative Learning Academy (the Academy), as of and for the year ended June 30, 2007, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Creative Learning Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Creative Learning Academy as of June 30, 2007 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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To the Board of Directors
Creative Learning Academy
Beaverton, Michigan

August 20, 2007

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2007, on our consideration of Creative Learning Academy's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages v through x and 18 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Maner, Costerisan + Ellis, P.C.

Certified Public Accountants

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Creative Learning Academy’s (Academy) annual financial report presents our discussion and analysis of the Academy’s financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the Academy’s financial statements, which immediately follow this section.

Financial Highlights

- The Academy had an increase in the fund balance in the general fund of $46,617 compared to a budgeted figure of $3,331. This gives the Academy a general fund balance of $209,203.

- The Academy retired $10,359 in long-term debt during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management’s discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Academy:

- The first two statements are academy-wide *financial statements* that provide both short-term and long-term information about the Academy’s overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the Academy, reporting the Academy’s operations in more detail than the academy-wide statements.
- The *governmental funds* statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the Academy’s budget for the year. Figure A-1 shows how the various parts of the annual report are arranged and related to one another.

Figure A-1
Organization of Creative Learning Academy’s Financial Report

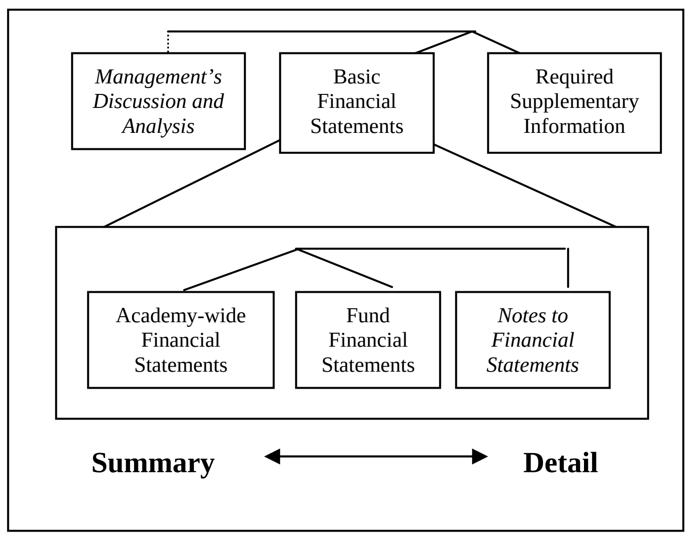

Figure A-2 summarized the major features of the Academy's financial statements, including the portion of the Academy's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Academy-wide and Fund Financial Statements

	Academy-wide statements	Governmental funds	Fiduciary funds
Scope	Entire academy (except fiduciary funds)	All activities of the Academy that are not fiduciary	Instances in which the Academy administers resources on behalf of someone else, such as student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	Statement of fiduciary assets and liabilities
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, the Academy's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Academy-wide statements

The academy-wide statements report information about the Academy as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Academy's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two academy-wide statements report the Academy's net assets and how they have changed. Net assets - the difference between the Academy's assets and liabilities, are one way to measure the Academy's financial health or position.

- Over time, increases or decreases in the Academy's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the Academy, you need to consider additional non-financial factors such as changes in the Academy's enrollment, the condition of school buildings and other facilities, and the Academy's ability to be competitive with other public school academies and area school districts.

Governmental activities - The Academy's basic services are included here, such as regular and special education and administration. State foundation aid finances most of these activities.

Fund financial statements

The fund financial statements provide more detailed information about the Academy's funds, focusing on its more significant or "major" funds - not the Academy as a whole. Funds are accounting devices the Academy uses to keep track of specific sources of funding and spending on particular programs. The Academy has a general fund and agency fund.

- Governmental funds - Most of the Academy's basic services are included in governmental funds which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. Because this information does not encompass the additional long-term focus of the academy-wide statements, we provide additional information with the governmental funds statement that explains the relationship (or differences) between them.
- Fiduciary funds - The Academy is the trustee, or fiduciary, for assets that belong to others. The Academy is responsible for ensuring that the assets reported in these funds are used only for their intended purposes, and only by those to whom the assets belong. We exclude these activities from the Academy-wide financial statements because the Academy cannot use these assets to finance operations.

Financial analysis of the Academy as a whole

Net assets - the Academy's combined net assets of $245,548 improved by $54,969 during the year. See Figures A-3 and A-4.

The total revenues decreased by 8% to $609,409. This is mainly due to a 9.6% decrease in enrollment. State aid foundation allowance included in revenue from state sources accounts for 85% of the Academy's revenue.

The total cost of instruction decreased by 0.5% to $315,102. Total support service decreased by 7.9% to $238,746. Both were primarily due to cost cutting measures resulting from the decrease in enrollment.

Academy governmental activities

Figure A-3
Creative Learning Academy's Net Assets

	2007	2006
Current assets	$ 265,842	$ 227,335
Capital assets, net	42,149	44,156
Total assets	307,991	271,491
Current liabilities	62,443	75,108
Long-term liabilities		5,804
Total liabilities	62,443	80,912
Net assets:		
Invested in capital assets, net of related debt	36,345	27,993
Unrestricted, as restated	209,203	162,586
Total net assets	$ 245,548	$ 190,579

Figure A-4
Changes in Creative Learning Academy's Net Assets

	2007	2006
Revenues:		
Program revenues:		
Federal and state categorical grants	$ 73,478	$ 88,846
General revenues:		
State aid - unrestricted	517,046	558,688
Other	18,885	14,808
Total general revenues	535,931	573,496
Total revenues	609,409	662,342
Expenses:		
Instruction	315,102	316,757
Support services	238,746	259,359
Other		344
Interest on long-term debt	592	1,272
Total expenses	554,440	577,732
Change in net assets	$ 54,969	$ 84,610

Financial analysis of the Academy’s funds

The Academy’s fund balance increased by $46,617 to $209,203. Principal and interest payments on long-term debt of $10,951 were made from the general fund. Instruction and support service expenditures decreased by approximately $28,500 due to cost cutting measures resulting from a 9.6% decrease in enrollment.

General fund budgetary highlights

Over the course of the year, the Academy revised the general fund annual operating budget when necessary. Changes were made in both the revenue and expenditure which reflected anticipated decreases in state aid and actual salary figures for staff.

While the Academy’s final budget for the general fund anticipated revenues would exceed expenditures and other financing sources or uses by $3,331, the actual results for the year showed revenues over expenditures of $46,617.

Actual revenues were on target at only $1,740 more than budgeted.

Actual expenditures were $41,546 under budget, due primarily to lower salary and health benefit costs.

Capital asset and debt administration

Capital assets

By the end of the year ended June 30, 2007, the Academy had invested $42,149 in capital assets net of accumulated depreciation as summarized in Figure A-5. This amount represents a decrease of $2,007 from the beginning of the year. Total depreciation expense for the year was $2,007. More detailed information about capital assets can be found in Note 4 to the financial statements.

The Academy’s capital assets are as follows:

Figure A-5
Creative Learning Academy's Capital Assets

	2007			2006
	Cost	Accumulated Depreciation	Net Book Value	Net
Modular classroom	$ 50,177	$ 8,028	$ 42,149	$ 44,156

Long-term debt

The Academy repaid principal on long-term debt of $10,359 during 2007. The Academy did not borrow any additional debt during the year. See Note 6 for more information.

Factors bearing on the Academy's future

At the time these financial statements were prepared and audited, the Academy was aware of existing circumstances that could significantly affect its financial health in the future.

- Changes to the foundation allowance for the next year have yet to be determined. Due to State budget issues and possible future cuts the Academy has budgeted a reduction in foundation allowance of $60 to $7,025 per pupil.

- The Academy has adopted a balanced budget for 2008.

The Board of Directors and management have taken appropriate steps to reduce cost. Considering the factors noted, necessary reductions touched every segment of the operation. Primary consideration was given to maintaining the educational integrity of the program.

Contacting the Academy's financial management

This financial report is designed to provide our students, parents and creditors with a general overview of the Academy's finances and to demonstrate the Academy's accountability for the money it receives. If you have questions about this report or need additional information, contact the Academy's Management Company, Choice Schools Associates, LLC at P.O. Box 141493, Grand Rapids, Michigan, 49514, phone (616) 785-8440.

CREATIVE LEARNING ACADEMY
STATEMENT OF NET ASSETS
JUNE 30, 2007

		Governmental activities
ASSETS		
CURRENT ASSETS:		
Cash	$	162,876
Due from other governmental units		102,966
TOTAL CURRENT ASSETS		265,842
NONCURRENT ASSETS:		
Capital assets		50,177
Less accumulated depreciation		(8,028)
TOTAL NONCURRENT ASSETS		42,149
TOTAL ASSETS	$	307,991
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$	11,736
Accrued salaries and related items		43,284
Accrued management fee		1,619
Current portion of long-term debt		5,804
TOTAL CURRENT LIABILITIES		62,443
NET ASSETS:		
Invested in capital assets, net of related debt		36,345
Unrestricted		209,203
TOTAL NET ASSETS		245,548
TOTAL LIABILITIES AND NET ASSETS	$	307,991

See notes to financial statements.

CREATIVE LEARNING ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

Functions/programs	Expenses	Program revenues: Charges for services	Program revenues: Operating grants	Governmental activities: Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	$ 315,102	$	$ 69,984	$ (245,118)
Support services	238,746		3,494	(235,252)
Interest on long-term debt	592			(592)
Total governmental activities	$ 554,440	$	$ 73,478	(480,962)
General revenues:				
Investment earnings				3,788
State sources				517,046
Other				15,097
Total general revenues				535,931
CHANGE IN NET ASSETS				54,969
NET ASSETS, beginning of year				190,579
NET ASSETS, end of year				$ 245,548

See notes to financial statements.

CREATIVE LEARNING ACADEMY
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2007

		General fund
ASSETS		
ASSETS:		
Cash		$ 162,876
Due from other governmental units		102,966
TOTAL ASSETS		$ 265,842
LIABILITIES AND FUND BALANCE		
LIABILITIES:		
Accounts payable		$ 11,736
Accrued salaries and related items		43,284
Accrued management fee		1,619
TOTAL LIABILITIES		56,639
FUND BALANCE:		
Designated - building improvement fund		34,396
Unreserved, undesignated		174,807
TOTAL FUND BALANCE		209,203
TOTAL LIABILITIES AND FUND BALANCE		$ 265,842
Total governmental fund balances		$ 209,203
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the funds:		
The cost of the capital assets is	$ 50,177	
Accumulated depreciation is	(8,028)	42,149
Long-term liabilities are not due and payable in the current period and are not reported in the funds:		
Note payable		(5,804)
Net assets of governmental activities		$ 245,548

See notes to financial statements.

CREATIVE LEARNING ACADEMY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2007

	General fund
REVENUES:	
Local sources:	
Investment income	$ 3,788
Other	10,265
Incoming transfers	4,832
Total local sources	18,885
State sources	548,629
Federal sources	41,895
Total revenues	609,409
EXPENDITURES:	
Current:	
Instruction:	
Basic programs	223,680
Added needs	89,415
Total instruction	313,095
Support services:	
Instructional staff	12,928
General administration	93,229
School administration	62,785
Business services	29,307
Operation and maintenance	26,457
Central support services	14,040
Total support services	238,746
Debt service:	
Principal retirement	10,359
Interest and fiscal charges	592
Total debt service	10,951
Total expenditures	562,792
NET CHANGE IN FUND BALANCE	46,617
FUND BALANCE:	
Beginning of year	162,586
End of year	$ 209,203

See notes to financial statements.

CREATIVE LEARNING ACADEMY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

Net change in fund balance total governmental funds	$ 46,617
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.	
Depreciation expense	(2,007)
Repayments of principal on long-term debts are expenditures in the governmental funds, but not in the statement of activities (where they are reductions of liabilities).	
Principal repayment on note payable	10,359
Change in net assets of governmental activities	$ 54,969

See notes to financial statements.

CREATIVE LEARNING ACADEMY
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUND
JUNE 30, 2007

	Agency fund
ASSETS:	
Cash	$ 176
LIABILITIES:	
Due to CLASS organization	$ 176

See notes to financial statements.

CREATIVE LEARNING ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Creative Learning Academy have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Academy's accounting policies are described below.

A. Reporting Entity

The Creative Learning Academy (the "Academy") is a public school academy as part of the Michigan Public School System under Public Act No. 362 of 1993. Saginaw Valley State University is the authorizing governing body for the Academy and has contracted with the Academy to charter the public school through June 2011. The Academy's Board of Directors is approved by the authorizing body and is authorized to manage the Academy and the property and affairs of the Academy. The Academy receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the Academy is not included in any other governmental reporting entity as defined by accounting principles generally accepted in the United States of America. The Academy's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statements No. 14 and 39.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Academy. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues.*

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Concluded)

The Academy first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the Academy's functions. The functions are also supported by general government revenues (State Foundation Aid, certain intergovernmental revenues, investment income and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (State Foundation Aid, intermediate district sources, interest income and other revenues.)

The Academy does not allocate indirect costs.

This government-wide focus is more on the sustainability of the Academy as an entity and the change in the Academy's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements.

Governmental Funds - Governmental funds are those funds through which most Academy functions typically are financed. The acquisition, use and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The Academy reports the following major governmental funds:

> The *general fund* is the Academy's primary operating fund. It accounts for all financial resources of the Academy, except those required to be accounted for in another fund.

Fiduciary Funds account for assets held by the Academy in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the Academy holds for others in an agency capacity.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period when received within 60 days of year end. All other revenue items are considered to be measurable and available only when cash is received by the Academy.

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to the Academy based on information supplied by the Academy. For the year ended June 30, 2007, the foundation allowance was based on pupil membership counts taken in February and September of 2006.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The State revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue.

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits accounts.

   The Academy reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and No. 40 *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity.

   State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

CREATIVE LEARNING ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

2. Receivables and payables

All receivables, are shown net of an allowance for uncollectibles.

3. Prepaid expenditures

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

4. Capital assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

The Academy's capitalization policy is to capitalize individual amounts exceeding $5,000.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Modular classroom	25 years

5. Long-term obligation

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as debt issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

6. Use of estimates

   The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

7. Fund balance

   In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general fund. Encumbrance accounting is employed in governmental funds. Significant encumbrances outstanding at year end, if any, are reported as reservations of fund balance because they will be re-appointed in the subsequent fiscal year.

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Chief Administrative Officer submits to the Board of Directors a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.

2. Prior to July 1, the budget is legally adopted by Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, in the general fund are noted in the required supplementary information section.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Concluded)

3. The Chief Administrative Officer is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board.

4. Formal budgetary integration is employed as a management control device during the year for the general fund.

5. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2007. The Academy does not consider these amendments to be significant.

NOTE 3 - CASH DEPOSITS - CREDIT RISK

Cash is held in the name of the Academy. These deposits are subject to custodial credit risk. This is the risk that in the event of a bank failure, the Academy’s deposits may not be returned to it. The Academy minimizes custodial credit risk on deposits by assessing the credit worthiness of the individual institutions in which it deposits funds. The amount of deposits with each institution is assessed to determine the level of risk it may pose to the Academy in relation to deposits in excess of insured amounts. As of June 30, 2007, $49,367 of the Academy’s bank balance of $167,763 was exposed to custodial credit risk because it was not covered by federal depository insurance and was not collateralized.

CREATIVE LEARNING ACADEMY
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - CAPITAL ASSETS

A summary of changes in the Academy's capital assets follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Governmental activities:				
Capital assets, being depreciated:				
Modular classroom	$ 50,177	$	$	$ 50,177
Accumulated depreciation:				
Modular classroom	6,021	2,007		8,028
Net capital assets being depreciated	44,156	2,007		42,149
Net governmental capital assets	$ 44,156	$ 2,007	$	$ 42,149

Depreciation for the fiscal year ended June 30, 2007 amounted to $2,007. The Academy allocates 100% of depreciation to the instruction activity.

NOTE 5 - NOTE PAYABLE

At June 30, 2007, the Academy has $0 outstanding from a state aid anticipation note dated August 20, 2005. The note, which had an interest rate of 6.26%, matured July 20, 2006. The note was secured by future state school aid payments. The Academy did not apply for a state aid anticipation note for the fiscal year ended June 30, 2007.

Balance June 30, 2006	Additions	Payments	Balance June 30, 2007
$ 5,145	$ -	$ 5,145	$ -

NOTE 6 - LONG-TERM DEBT

The Academy issued a note payable to acquire a modular classroom. The note is due in monthly installments of $913 through February 2008, including interest at 5.5%.

The following is a summary of long-term obligation transactions of the Academy for the year ended June 30, 2007:

	Note payable
Long-term debt, July 1, 2006	$ 16,163
Deductions:	
Principal payments	10,359
Balance, June 30, 2007	5,804
Less current portion	5,804
Total due after one year	$ -

The annual requirements to amortize long-term debt outstanding, including estimated interest of $100 are as follows:

Year ending June 30,	Principal	Interest	Total
2008	$ 5,804	$ 100	$ 5,904

NOTE 7 - BUILDING LEASE

The Academy leases a building for the use of classrooms under a non-cancelable operating lease until August 2007. The monthly lease payment is based on the February and September 2006 pupil count for the current fiscal year. The building lease expense for the year ended June 30, 2007 was approximately $22,000.

NOTE 7 - BUILDING LEASE (Concluded)

Future minimum rental payments are as follows:

Year ending June 30	
2008	$ 3,740

NOTE 8 - OVERSIGHT FEES

The Academy pays an administrative oversight fee of 3% of its state school aid discretionary and Proposal A obligation payments to the Saginaw Valley State University Board of Trustees, as set forth by contract, to reimburse the University Board for the cost of execution of its oversight responsibilities. These oversight responsibilities include the monitoring of the Academy's compliance with the terms and conditions of the contract, and the review of its audited financial statements and periodic reports. During the year ended June 30, 2007, the Academy incurred expense of approximately $15,000 for oversight fees.

NOTE 9 - MANAGEMENT AGREEMENT

The Academy has entered into a six year (through June 2011) management agreement with Choice Schools Associates, LLC (Choice Schools) for operations of the Academy. Under the terms of the management agreement, Choice Schools' compensation for operating the Academy is approximately $70,000 for the fiscal year 2007.

NOTE 10 - PURCHASED SERVICES

The Academy leases all employee services from Choice Schools. Salaries, retirement, social security, health insurance, and unemployment taxes are the responsibility of Choice Schools. The amount due to Choice Schools Associates at June 30, 2007 was $52,800.

NOTE 11 - RISK MANAGEMENT

The Academy is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. To minimize the risk, the Academy carries commercial insurance.

REQUIRED SUPPLEMENTARY INFORMATION

CREATIVE LEARNING ACADEMY
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2007

	Original budget	Final budget	Actual	Variance with final budget positive (negative)
REVENUES:				
Local	$ 1,250	$ 12,697	$ 14,053	$ 1,356
State sources	622,119	548,245	548,629	384
Federal sources	48,042	41,895	41,895	
Incoming transfers	700	4,832	4,832	
Total revenues	672,111	607,669	609,409	1,740
EXPENDITURES:				
Instruction:				
Basic programs	257,831	241,363	223,680	17,683
Added needs	102,373	92,996	89,415	3,581
Total instruction	360,204	334,359	313,095	21,264
Support services:				
Instructional staff	19,501	17,344	12,928	4,416
General administration	105,678	96,740	93,229	3,511
School administration	73,610	69,113	62,785	6,328
Business	35,802	31,082	29,307	1,775
Operation and maintenance	28,220	30,700	26,457	4,243
Central support services	8,000	14,000	14,040	(40)
Total support services	270,811	258,979	238,746	20,233
Community services:				
Other community service	266			
Debt service:				
Principal retirement	8,688	9,250	10,359	(1,109)
Interest and fiscal charges	1,750	1,750	592	1,158
Building improvement fund	18,664			
Total debt service	29,102	11,000	10,951	49
Total expenditures	660,383	604,338	562,792	41,546
NET CHANGE IN FUND BALANCE	$ 11,728	$ 3,331	46,617	$ 43,286
FUND BALANCE:				
Beginning of year			162,586	
End of year			$ 209,203	

Maner,
Costerisan
& Ellis, P.C.
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Creative Learning Academy
Beaverton, Michigan

August 20, 2007

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Creative Learning Academy as of and for the year ended June 30, 2007, which collectively comprise Creative Learning Academy's basic financial statements of the Academy and have issued our report thereon dated August 20, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Creative Learning Academy's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Academy's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the Academy's internal control.

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Board of Directors
Creative Learning Academy
Beaverton, Michigan

August 20, 2007

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Academy's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

<u>Compliance and Other Matters</u>

As part of obtaining reasonable assurance about whether Creative Learning Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, U.S. Department of Education and the Michigan Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Maner, Costerisan + Ellis, P.C.

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Maner, Costerisan & Ellis, P.C.
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August 20, 2007

To the Board of Directors
Creative Learning Academy
Beaverton, Michigan 48612

In planning and performing our audit of the financial statements of Creative Learning Academy as of and for the year ended June 30, 2007 in accordance with auditing standards generally accepted in the United States of America, we considered Creative Learning Academy's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. This letter does not affect our report dated August 20, 2007 on the financial statements of Creative Learning Academy. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows.

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<u>New Notification Requirements for Related Not-for-Profit Organizations with Gross Receipts of $25,000 or less Such as Booster Groups and PTO's</u>

The Pension Protection Act of 2006 requires these organizations to file an annual electronic notice for tax periods beginning after December 31, 2006, if these organizations are not required to file Form 990 (or 990-EZ), Return of Organization Exempt From Income Tax because their gross receipts are normally $25,000 or less.

If they are a section 509(a)(3) supporting organization, generally, they must file a paper or electronic Form 990 (or Form 990-EZ) even if their gross receipts are normally $25,000 or less. However, if they are a supporting organization of a religious organization and their gross receipts are normally $5,000 or less they may file an annual electronic notice instead of Form 990 (or Form 990-EZ).

The annual electronic notice is due by the 15th day of the fifth month after the close of their tax period. For example, if their tax period ends on December 31, 2007, the annual electronic notice is due May 15, 2008.

The notice will require these organizations to provide the following information:

- Organization's legal name,
- Any other names your organization uses,
- Organization's mailing address,
- Organization's website address (if applicable),
- Organization's employer identification number (EIN),
- Name and address of a principal officer of your organization.
- Organization's annual tax period,
- Verify that your organization's annual gross receipts are still normally $25,000 or less, and
- Indicate if your organization has terminated (is no longer in business).

New Auditing Standards

Recently, 10 new auditing standards have been released and are effective, or will become effective for your June 30, 2008 year end. In reviewing the new standards, they will have an impact on our overall audit approach. The trend is to perform audit procedures utilizing more of a risk based approach. One area which will continue to be emphasized is your internal controls.

New Interpretation Of Deferred Compensation Rules Applicable To Teachers And Similar Employees

In August of 2007, the IRS issued new questions and answers related to deferred compensation which can effect teachers and similar employees.

When employees can elect to defer part of their compensation to a future year, they are generally subject to the rules applicable to deferred compensation under the Internal Revenue Code. These payments could be subject to an additional 20% tax if the specified procedures are not followed. For example, school employees who work 10 months but are paid over 12 months would be deferring compensation into a future year.

If a school district provides that all employees must spread their pay over 12 months, these rules do not apply.

In order to avoid imposition of extra taxes, the employees must give a written or electronic election to notify the employer that they want to spread out the compensation. This election must be provided before the start of the school year and must be irrevocable. The election must state how the compensation is going to be paid (for example, ratably over the 12 months starting with the beginning of the school year). This election does not need to be made for future years if the arrangement provides that the election will remain in place until the employee elects a change. These rules are effective January 1, 2008. Therefore, they are not applicable until the election for the 2008 - 2009 school year.

We have already discussed many of these comments and suggestions with various Academy personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Creative Learning Academy, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Maner, Costerisan + Ellis, P.C.

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August 20, 2007

To the Board of Directors
Creative Learning Academy
Beaverton, Michigan

We have audited the financial statements of Creative Learning Academy for the year ended June 30, 2007, and have issued our report thereon dated August 20, 2007. Professional standards require that we provide you with the following information related to our audit.

1. Our Responsibility under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated April 27, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Creative Learning Academy. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether Creative Learning Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of law, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

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2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Creative Learning Academy are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by Creative Learning Academy during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

3. Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no significant estimates to report.

4. Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Creative Learning Academy's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Creative Learning Academy, either individually or in the aggregate, indicate matters that could have a significant effect on the Academy's financial reporting process.

5. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

6. Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

7. Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Creative Learning Academy's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

8. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of the Board of Directors and management of Creative Learning Academy and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Maner, Costerisan + Ellis, P.C.